

United States Senate

WASHINGTON, DC 20510-3802
specter.senate.gov

November 14, 2008

Honorable Harry Reid
Majority Leader
United States Senate

Honorable Mitch McConnell
Republican Leader
United States Senate

Dear Harry and Mitch:

In considering what action, if any, to take on financial aid to General Motors and the other auto manufacturers, I urge that the Senate follow regular order and not rush to judgment.

By letter dated September 21, 2008 I wrote to you two leaders with the same recommendation on following regular order on the bailout plan then under consideration, and then Congress proceeded to act precipitously without appropriate consideration for all the complex issues involved. It is true that the Senate was faced with an emergency situation on October 1st when the Dow had plunged 777 points after the House of Representatives rejected the proposed legislation on September 29th. Senators were then faced with voting yes or no without having the customary hearings, committee markup, floor debate and an opportunity to offer amendments. As a result, the legislation was filled with pork since no one had an opportunity to strike it and the Congress endorsed a plan which had not been given appropriate consideration.

There are many complex questions which need to be answered before the Senate can even begin to make a preliminary assessment on aid to the auto manufacturers. We need to know the specifics on General Motors' financial situation. It is reported that GM has sufficient cash to keep it afloat for a substantial period of time so that immediate financial aid is not indispensable.

It has been further reported that General Motors has sufficient cash and liquidity to continue to operate if it was not for the servicing of the debt estimated to be about \$50 billion. That debt is said to have a market value perhaps as low as \$20 billion and currently calls for an interest rate of 9% annually so that General Motors is paying well over 20% on the realistic value of the bonds. Some readjustment on that debt and interest might alter significantly General Motors' need for federal aid.

We further need to know what are the realistic prospects that financial aid will solve the problem without having GM and the other automakers come back for more. The automakers have certainly had sufficient notice for years, if not decades, that they had to make major changes to become competitive and yet failed to do so. It was well known that at some point Congress would mandate mileage standards but the automakers did not act aggressively until faced with a congressional mandate. We have now approved \$25 billion in federal aid to assist in meeting mileage standards. Why couldn't there be a change in legislation to allow those funds to be made available faster and to broaden their use beyond retooling factories? It would be preferable from the taxpayer point of view to utilize funding already available in a more efficient manner, rather than devoting additional resources to this industry.

Beyond these surface questions, there needs to be a great deal of analysis through the hearing process of many other complex questions.

If the federal government had not bailed out Bear Stearns, AIG and passed the \$700 billion bailout, the auto-makers might not now be asking for the same treatment. If the auto-makers are bailed out, it is a virtual certainty that Congress will next hear bailout requests from other sections of the economy. Insufficient consideration by the Treasury Department and the Federal Reserve followed by the rush to judgment by Congress on the \$700 billion has left my constituents perplexed about the competency of the federal government to respond rationally to the current problems. In a series of town meetings in October, I found the temperature of my constituents at 212 degrees Fahrenheit over the \$700 billion bailout legislation. In extensive discussions with economists, bankers and other financial experts, I have heard a virtually unanimous adverse reaction to bailing out General Motors and/or other automakers. My constituents are frustrated with the lack of transparency in doling out the \$700 billion and the change of course from purchasing "troubled assets" to one of injecting funds directly into banks. What assurances would we have that these funds for the auto industry would be spent wisely, and as intended by Congress? Isn't it wiser to let the market make those decisions?

I will be looking for answers to these and other questions when the Senate returns for the lame duck session next week. I voted for the bailout on October 1st because of the ominous prospect of a domino effect and its severe impact on our economy. I am prepared to give fair consideration to economic aid to General Motors and other automobile manufacturers because of the national interest including the many jobs at stake in Pennsylvania; but I am not prepared to vote for another massive bailout unless a solid case is made following regular Senate order with hearings, committee mark-up, floor debate and an opportunity to offer amendments.

I am sending a copy of this letter to Treasury Secretary Paulson and Federal Reserve Chairman Bernanke. When the September bailout was under consideration, I wrote to Mr. Paulson and Mr. Bernanke by letter dated September 23, 2008 raising a number of questions. I have yet to receive an answer to that letter. I would like the views of Mr. Paulson and Mr. Bernanke on the issues raised in this letter.

I am also sending copies of this letter to General Motors Chairman and CEO Rick Wagoner, Ford President and CEO Alan Mulally, and Chrysler Chairman and CEO Robert Nardelli with the request that they give me their views on the issues raised in this letter.

Sincerely,



Arlen Specter

Cc: Federal Reserve Chairman Ben Bernanke
Secretary of the Treasury Henry Paulson
General Motors Chairman and CEO Rick Wagoner
Ford President and CEO Alan Mulally
Chrysler Chairman and CEO Robert Nardelli